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August 29, 2003

HAND DELIVERY

Ms. Mary L. Cottrell, Secretary  
Massachusetts Department of Telecommunications and Energy  
One South Station  
Boston, MA 02110

Re: D.T.E. 03-72 Fitchburg Gas and Electric Light Company

Dear Secretary Cottrell:

Enclosed for filing in the above-referenced proceeding are Fitchburg Gas and Electric Light Company's responses to the following requests in the Department's First Set of Information Requests:

DTE-1-1      DTE-1-2      DTE-1-3      DTE 1-4

Thank you for your attention to this matter.

Very truly yours,

*Scott J. Mueller/RF*

Scott J. Mueller

SJM/va

cc: Kevin S. Penders, Esq., Hearing Officer  
Mark H. Collin, Unitil Service Corp.  
Gary Epler, Esq., Unitil Service Corp.

(b90548)



Commonwealth of Massachusetts  
Department of Telecommunications and Energy  
Fitchburg Gas and Electric Light Company  
Docket No: DTE 03-72  
Department's First Set of Data Requests

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**Request No: DTE-1-1**

Refer to Mr. Collin's pre-filed testimony at 3. Please explain in greater detail how a Department exemption from the bid solicitation requirement of G.L. c. 164, §15 will facilitate the \$ 10 million issuance of long-term debt.

**Response:**

FG&E has requested an exemption from the advertising and competitive bidding requirements of G.L. c. 164, §15 because it believes that the private placement competitive solicitation process conducted by Merrill Lynch reduces the overall cost of the proposed financing for FG&E and its customers. FG&E, in consultation with Merrill Lynch, believed that a private placement would be less expensive than a public placement due to the relatively small size of the proposed issuance, the resulting lack of sufficient market liquidity of such an issuance, and the higher fixed costs associated with such a public offering.

Ms. Valladares, Associate of Merrill Lynch, provides further support for FG&E's request for an exemption in her letter dated August 20, 2003. See Schedule H to the Supplemental Testimony of Mark H. Collin.

**Person Responsible: Mark H. Collin**

Commonwealth of Massachusetts  
Department of Telecommunications and Energy  
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**Request No: DTE-1-2**

Please provide Fitchburg's current bond ratings and their source.

**Response:**

FG&E's Long-term Notes are not rated by any public rating agencies. They were all issued under a private placement process that does not require that they be publicly rated. However, FG&E's current outstanding notes carry a National Association of Insurance Company rating of NAIC-2, which classifies FG&E's outstanding notes as investment grade for private placement purposes to insurance companies. In addition, the coupon rate of 6.79% that FG&E achieved in this most recent private placement offering is indicative of a BBB investment grade public bond rating. See Schedule H of Mr. Collin's Supplemental Testimony (Letter from Ms. Valladares, Associate of Merrill Lynch, dated Aug. 20, 2003).

**Person Responsible: Mark H. Collin**

Commonwealth of Massachusetts  
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**Request No.: DTE-1-3**

Please describe what factors determine the value of the 7.5 percent coupon rate for an issuance of this size. Also, provide what the coupon rate would be if Fitchburg were to pursue a public offering.

**Response:**

The 7.5% coupon rate was used in FG&E's Petition as a reasonable estimate of the upper limit that FG&E believed it would achieve under the proposed offering, given current market conditions and the timing of the offering. This estimate was derived in consultation with Merrill Lynch and was primarily derived from the current trading levels on publicly traded utility bonds of similar investment grade to FG&E. On August 19, 2003, as described in Mr. Collin's pre-filed Supplemental Testimony, FG&E committed (subject to regulatory approval) to a private placement of \$10,000,000 of long-term Notes at a coupon rate of 6.79%. FG&E believes a number of factors contributed to this optimal rate, including marketing conditions at the time of the offering, Merrill Lynch's marketing efforts and competitive solicitation process, and the bidders' favorable evaluation of FG&E. In Schedule H of Mr. Collin's pre-filed Supplemental Testimony, Ms. Valladares, Associate of Merrill Lynch, expresses the opinion that a public offering of \$10,000,000 in size would probably have been priced at a coupon rate as high as 8.34%, given a number of factors that would make this an unattractive public offering.

**Person Responsible: Mark H. Collin**

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**Request No: DTE-1-4**

Refer to Mr. Collin's pre-filed testimony at 8. Please describe in detail the marketing efforts and competitive solicitation process conducted by Merrill Lynch to secure the coupon rate of 7.5 percent. As part of this response, provide the bid offers received by Fitchburg.

**Response:**

Merrill Lynch initiated its marketing process the work week of August 4, 2003, with the Private Placement Memorandum sent to no more than 20 institutional investors. Merrill Lynch utilized an "auction" format, for the purpose of allowing for a competitive bid process that would result in the lowest cost for a small transaction. The bids received by Merrill Lynch ranged from a minimum spread of 195bps to a maximum of 205bps. All spreads were quoted over an interpolated 20 year US Treasury rate of 4.84%. FG&E selected the transaction with the lowest coupon rate bid of 6.79%. For further details, see Schedule H of Mr. Collin's Supplemental Testimony (Letter from Ms. Valladares, Associate of Merrill Lynch).

**Person Responsible: Mark H. Collin**